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## PAID UP OIL AND GAS LEASE

THIS LEASE AGREEMENT is made effective this 1st day of March, 2009, by and between SUZANNE HAMILTON SCRUGGS, a widow, 5905 Mountainclimb Drive, #E-2, Austin, Texas 78731, as Lessor, and THUNDERBIRD OIL & GAS, L.L.C., 515 Fourth Street, Graham, Texas 76450, as Lessee. All printed portions of this lease were prepared by the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called "leased premises," said leased premises being described as follows:

All that certain 41.53 acre lot, tract or parcel of land, more or less, being a part of Block 18 of the Shelby County School Land Survey, Abstract No. 1375, Tarrant County, Texas, more fully described in that certain Warranty Deed dated September 13, 1911, from Sidney Reinhardt to J. S. Coe, filed of record Volume 369, Page 182, of the Deed Records of Tarrant County, Texas;

in Johnson County, Texas, containing 41.53 gross acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon and non hydrocarbon substances produced in association therewith (including geophysical/seismic operations). The term "gas" as used herein includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. In addition to the above-described leased premises, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described leased premises, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any shut-in royalties hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. This lease, which is a "paid-up" lease requiring no rentals, shall be in force for a primary term of three (3) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be twenty-five percent (25%) of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity; (b) for gas (including casinghead gas) and all other substances covered hereby, the royalty shall be twenty-five percent (25%) of the proceeds realized by Lessee from the sale thereof, less a proportionate part of ad valorem taxes and production, severance, or other excise taxes and the costs incurred by Lessee in delivering, processing or otherwise marketing such gas or other substances, provided that Lessee shall have the continuing right to purchase such production at the prevailing wellhead market price paid for production of similar quality in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder; and (c) if at the end of the primary term or any time thereafter one or more wells on the leased premises or lands pooled therewith are capable of producing oil or gas or other substances covered hereby in paying quantities, but such well or wells are either shut-in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this lease. If for a period of 90 consecutive days such well or wells are shut-in or production therefrom is not being sold by Lessee, then Lessee shall pay shut-in royalty of one dollar per acre then covered by this lease, such payment to be made to Lessor or to Lessor's credit in the depository designated below, on or before the end of said 90-day period and thereafter on or before each anniversary of the end of said 90-day period while the well or wells are shut-in or production therefrom is not being sold by Lessee; provided that if this lease is otherwise being maintained by operations, or if production is being sold by Lessee from another well or wells on the leased premises or lands pooled therewith, no shut-in royalty shall be due until the end of the 90-day period next following cessation of such operations or production. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

4. All shut-in royalty payments under this lease shall be paid or tendered to Lessor or to Lessor's credit in at Lessor's address above or its successors, which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land. All payments or tenders may be made in currency, or by check or by draft and such payments or tenders to Lessor or to the depository by deposit in the U.S. Mail in a stamped envelope addressed to the depository or to the Lessor at the last address known to Lessee shall constitute proper payment. If the depository should liquidate or be succeeded by another institution, or for any reason fail or refuse to accept payment hereunder, Lessor shall, at Lessee's request, deliver to Lessee a proper recordable instrument naming another institution as depository to receive payments.

5. If Lessee drills a well which is incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if all production (whether or not in paying quantities) permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of Paragraph 6 or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of all production. If at the end of the primary term, or at any time thereafter, this lease is not otherwise being maintained in force but Lessee is then engaged in drilling, reworking or any other operations reasonably calculated to obtain or restore production therefrom, this lease shall remain in force so long as any one or more of such operations are prosecuted with no cessation of more than 90 consecutive days, and if any such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities from the leased premises or lands pooled therewith. After completion of a well capable of producing in paying quantities hereunder, Lessee shall drill such additional wells on the leased premises or lands pooled therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the leased premises as to formations then capable of producing in paying quantities on the leased premises or lands pooled therewith, or (b) to protect the leased premises from uncompensated drainage by any well or wells located on other lands not pooled therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein.

6. Lessee shall have the right but not the obligation to pool all or any part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well which is not a horizontal completion shall not exceed 80 acres plus a maximum acreage tolerance of 10%, and for a gas well or a horizontal completion shall not exceed 640 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for an oil well or gas well or horizontal completion to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction to do so. For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or, if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 100,000 cubic feet or more per barrel, based on 24-hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and the term "horizontal completion" means an oil well in which the horizontal component of the gross completion interval in the reservoir exceeds the vertical component thereof. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit, but only to the extent such proportion of unit production is sold by Lessee. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

7. If Lessor owns less than the full mineral estate in all or any part of the leased premises, the royalties and shut-in royalties payable hereunder for any well on any part of the leased premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the leased premises bears to the full mineral estate in such part of the leased premises.

8. The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or certified or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate in the depository designated above. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons or to their credit in the depository, either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

9. Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases all or an undivided interest in less than all of the area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder.

10. In exploring for, developing, producing and marketing oil, gas and other substances covered hereby on the leased premises or lands pooled or unitized herewith, in primary and/or enhanced recovery, Lessee shall have the right of ingress and egress along with the right to conduct such operations on the leased premises as may be reasonably necessary for such purposes, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells, pits, electric and telephone lines, power stations, and other similar facilities deemed necessary by Lessee to discover, produce, store, treat and/or transport production. Lessee may use in such operations, free of cost, any oil, gas, water and/or other substances produced on the leased premises, except water from Lessor's wells or ponds. In exploring, developing, producing or marketing from the leased premises or lands pooled therewith, the ancillary rights granted herein shall apply (a) to the entire leased premises described in Paragraph 1 above, notwithstanding any partial release or other partial termination of this lease; and (b) to any other lands in which Lessor now or hereafter has authority to grant such rights in the vicinity of the leased premises or lands pooled therewith. When requested by Lessor in writing, Lessee shall bury its pipelines below ordinary plow depth on cultivated lands. No well shall be located less than 200 feet from any house or barn now on the leased premises or other lands used by Lessee hereunder, without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the leased premises or such other lands, and to commercial timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the leased premises or such other lands during the term of this lease or within a reasonable time thereafter.

11. Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction including restrictions on the drilling and production of wells, and the price of oil, gas, and other substances covered hereby. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any express or implied covenants of this lease when drilling, production or other operations are so prevented, delayed or interrupted.

12. In the event that Lessor, during the primary term of this lease, receives a bona fide offer which Lessor is willing to accept from any party offering to purchase from Lessor a lease covering any or all of the substances covered by this lease and covering all or a portion of the land described herein, with the lease becoming effective upon expiration of this lease, Lessor hereby agrees to notify Lessee in writing of said offer immediately, including in the notice the name and address of the offeror, the price offered and all other pertinent terms and conditions of the offer. Lessee, for a period of fifteen days after receipt of the notice, shall have the prior and preferred right and option to purchase the lease or part thereof or interest therein, covered by the offer at the price and according to the terms and conditions specified in the offer.

13. No litigation shall be initiated by Lessor with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default, within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or canceled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to do so.

14. Lessor hereby warrants and agrees to defend title conveyed to Lessee hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the leased premises. If Lessee exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made, and, in addition to its other rights, may reimburse itself out of any royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut-in royalties hereunder, without interest, until Lessee has been furnished satisfactory evidence that such claim has been resolved.

15. The following terms and provisions set hereafter made a part of the above oil and gas lease shall take precedence over any inconsistent terms and provisions contained in this lease.

Notwithstanding anything contained in this lease to the contrary, Lessor and Lessee do hereby understand and agree as follows:

## 1. Surface Use.

A. It is the intention of Lessor and Lessee that the Lease and the Land covered by the Lease shall be a non-drilling lease. Accordingly, without the prior written consent of Lessor, which can be withheld in Lessor's sole discretion, Lessee may not enter upon the land covered by the Lease, and cannot conduct any operations of any nature on the surface of the land covered by the Lease. Without limiting the generality of the foregoing, Lessee understands and agrees that Lessee, its successors and assigns, cannot: (i) come on, over or across the land covered by the Lease, (ii) conduct any drilling (except horizontal drilling from an off-lease drill site), exploration, geologic or geophysical operations on the land covered by the Lease, (iii) store any materials or supplies or install or locate any equipment or facilities on the land covered by the Lease, nor (iv) lay any pipelines or utility lines on, over, under or across, the land covered by the Lease.

## 2. Royalty.

A. As royalties, Lessee agrees:

(1) To deliver free of cost to Lessor at the wells or to the credit of Lessor at the pipeline to which the wells may be connected, 25/100ths (25.0%) (the "Royalty Fraction") of all oil and other liquid hydrocarbons produced and saved from the Land. At Lessor's option, which may be exercised from time to time, Lessee shall pay to Lessor the Royalty Fraction of the market value at the well of oil and other liquid hydrocarbons of like grade and gravity prevailing in the area on the day the oil and other hydrocarbons are run from the lease. (The "area" means the general area in which the Land is located.)

(2) To pay to Lessor:

- (a) On gas produced from the Land and sold by Lessee pursuant to an arms-length contract with a purchaser that is not an affiliate of Lessee, for a term no longer than that which is usual and customary in the industry at the time the contract is made, and in any event for a term of one (1) year or less, and to which the following subparagraphs (b) and (c) do not apply, the Royalty Fraction of the total proceeds received by Lessee at the point of sale, plus the reimbursements and adjustments required by the provisions of paragraphs 2B, 2C and 2D below.
- (b) On gas produced from the Land and sold by Lessee to an affiliate or used on or off the Land by Lessee or an affiliate of Lessee and to which the following subparagraph (c) does not apply, the greater of the Royalty Fraction of (i) the market value of the gas at the point of sale, use, or other disposition, or (ii) the total proceeds received by Lessee at the point of sale, use or other disposition, and, in either case, plus the reimbursements, adjustments and other payments required by the provisions of paragraphs 2B, 2C and 2D below.

- (c) On gas produced from the Land that is processed in a processing plant in which Lessee or an affiliate of Lessee has a direct or indirect interest, the greater of the Royalty Fraction of the market value of the gas at the inlet to the processing plant, OR the Royalty Fraction of the market value of all processed liquids saved from the gas at the plant, plus the Royalty Fraction of the total proceeds received by Lessee for residue gas at the point of sale, use or other disposition; and in every case, plus the reimbursements, adjustments and other payments required by the provisions of paragraphs 2B, 2C and 2D below.
- B. The market value of gas will be determined at the specified location by reference to the gross heating value (measured in British thermal units) and quality of the gas. The market value used in the calculation of oil and gas royalty will never be less than the total proceeds received by Lessee in connection with the sale, use, or other disposition of the oil or gas produced and sold, used or disposed of, plus the reimbursements, adjustments and other payments required by the provisions of this paragraph 2B, and paragraphs 2C and 2D below. For purposes of this paragraph 2, if Lessee receives from a purchaser of oil or gas any reimbursement for all or any part of severance or production taxes, or if Lessee realizes proceeds of production after deduction for any expense of production, gathering, dehydration, separation, compression, transportation, treatment, processing, storage, or marketing, then the reimbursement or the deductions will be added to the total proceeds received by Lessee. Royalty calculated in the manner provided in this paragraph 2 will be paid on oil and gas produced from the Land and consumed by Lessee or others for compression, dehydration, fuel, or other use.
- C. Lessor's royalty will never bear, either directly or indirectly, any part of Lessee's costs or expenses of production, separation, gathering, dehydration, compression, transportation, trucking, processing, treatment, and storage on the Land (or any land pooled with the Land), or any part of the costs of construction, operation, or depreciation of any plant or other facilities or equipment used in the handling of oil or gas, or any part of Lessee's costs or expenses to lay a pipeline to the point of sale, use or other disposition, or any charges, fees or deductions to transport production through any pipelines or facilities of an affiliate of Lessee, to the point of sale, use or other disposition; provided, further, Lessor's royalty will bear its share of the actual charges, fees and deductions, to transport production through any pipelines or facilities of a non-affiliated third party off the Land (and any land pooled with the Land) or beyond the point of sale, use or other disposition, which are taken into consideration in calculating the total proceeds paid for the production at the point of sale, use or other disposition.
- D. Lessor shall be paid the Royalty Fraction of all payments and other benefits made under any oil or gas sales contract or other arrangement, including, but not limited to, stand by fees, reserve maintenance fees, premiums, take-or-pay payments, or any other payment or benefit regardless of the name or purpose for the payment or benefit, and payments received in settlement of disputes relating to any contracts related to the sale, use or other disposition of the oil or gas; provided that if Lessor receives a recoverable take-or-pay or similar payment for gas that has not been produced, and if the gas is subsequently produced, Lessor's royalty for such make-up gas shall be determined after giving credit for the take-or-pay or similar payment actually received by Lessor for such gas.
- E. As used in this Lease, "affiliate" means (i) a corporation, joint venture, partnership, or other legal entity that owns more than ten percent of the outstanding voting interest of Lessee or in which Lessee owns more than ten percent of the outstanding voting interest; or (ii) a corporation, joint venture, partnership, or other legal entity in which, together with Lessee, more than ten percent of the outstanding voting interests of both Lessee and the other corporation, joint venture, partnership or other legal entity is owned or controlled by the same persons or group of persons.
- F. Lessee must disburse or cause to be disbursed to Lessor its royalty on production from a particular well not later than 90 days after completion of the well, in the case of an oil well, or after the pipeline connection, in the case of a gas well. Thereafter, Lessee must disburse or cause to be disbursed to Lessor its royalty on production by the last day of the second month after the month of production. If not paid when due, Lessor's royalty will bear interest at the maximum lawful rate from the due date until paid, which amount Lessee agrees to pay.
- G. Acceptance by Lessor of royalties that are past due will not act as a waiver or estoppel of its right to receive interest due thereon unless Lessor expressly so provides in a writing signed by Lessor.
- H. The receipt by Lessee from a purchaser or a pipeline company of proceeds of production for distribution to Lessor will not result in Lessee acquiring legal or equitable title to those proceeds, but Lessee will at all time hold the proceeds in trust for the benefit of the Lessor. Notwithstanding the failure of any purchaser of production to pay Lessee for oil or gas produced from the Land, including, but not limited to, the insolvency, bankruptcy, or other business failure of a purchaser of production from the Land or pipeline company transporting production from the Land, Lessee will remain liable for payment to Lessor for, and agrees to pay Lessor all royalties due Lessor together with interest if not timely paid.

### 3. **Shut-in Royalties.**

The right of Lessee to maintain the Lease in force by payment of shut-in royalty payments is limited to the period of two cumulative years. The obligation of Lessee to pay shut-in royalty is a condition and a covenant. The payment or tender of royalty under this paragraph may be made by the check of Lessee mailed or delivered to Lessor at the address provided herein on or before the due date; provided, that in any event, the payment is actually received by Lessor no later than five (5) business days after the due date. The minimum shut-in royalty payment shall be Fifty and No/100ths (\$50.00) Dollars.

### 4. **Drilling and Reworking Operations.**

The Lease shall terminate at the expiration of the Primary Term, if there is no oil or gas being produced in paying quantities from the Land (or land pooled therewith), or no gas well on the Land (or land pooled therewith) for which shut-in royalty payments are timely and properly paid, or if Lessee is not then engaged in the actual drilling of a new well or operations to re-work or re-complete a well which has ceased to produce oil or gas in paying quantities for any reason which is not covered by and subject to the shut-in royalty provisions; provided, however, that if Lessee is engaged at the expiration of the Primary Term in drilling a new well or re-working or re-completing an existing well from which production in paying quantities has ceased, the Lease shall be extended for so long as Lessee diligently prosecutes such operations to completion, with no cessation of operations for more than thirty (30) consecutive days; and provided, further, if such operations result in the completion of a well capable of producing in paying quantities or restoring production in paying quantities from an existing well, then the Lease shall be held by production, subject to the other provisions of the Lease. If a well which has produced oil or gas in paying quantities ceases to produce in paying quantities after the expiration of the Primary Term, and the Lease is not otherwise being maintained by production, continuous drilling or reworking operations, or timely and properly paid shut-in royalty payments, the Lease shall terminate; provided, however, that the Lease shall not terminate if Lessee restores production in paying quantities from such well by reworking, repair or re-completion operations actually commenced within sixty (60) days after the cessation of production from such well, which are diligently prosecuted to completion with no cessation of such operations for more than thirty (30) consecutive days.

### 5. **Continuous Drilling.**

- A. As long as the Lease is maintained beyond the expiration of the Primary Term by production, or by the timely and proper payment of shut-in royalty payments, or timely drilling and re-working operations in accordance with paragraph 4 above, it will remain in force as to all acreage and depths as long as there is no lapse of more than one hundred twenty (120) days between the completion of one well (including a well which was drilled or on which drilling operations commenced during the Primary Term) and the commencement of the actual drilling of another well. The commencement of the actual drilling means the penetration of the surface with a drilling rig capable of drilling to the anticipated depth of the well. After a well is commenced, drilling operations must continue in a good and workmanlike manner in a good faith effort to reach the anticipated total depth with no cessation of operations for more than thirty (30) consecutive days. For the purpose of computing the time for the commencement of actual drilling of a well, each well will be deemed to have been completed on the date of the release of the drilling rig from the drill site, if the well is a dry hole, or on the date of completing the official Railroad Commission of Texas potential test, if the well is completed as a well capable of producing oil or gas.
- B. If at any time the maximum time for the commencement of the actual drilling of a well expires without the commencement of a well, or upon the expiration of the Primary Term if Lessee has not conducted continuous drilling operations during the Primary Term, the Lease will terminate except as to the acreage included within a proration or pooled unit surrounding any well that is then producing in paying quantities or deemed to be producing in paying quantities by virtue of payment of shut-in royalties (hereafter a "Retained Tract"), and as to each Retained Tract, the Lease will then terminate as to all depths below 100 feet below the stratigraphic equivalent of the base of the deepest producing formation on the Retained Tract. Thereafter, the Lease will be treated as a separate lease with respect to each Retained Tract and will continue so long as production in paying quantities continues from the tract or drilling or reworking operations are timely conducted on the tract in accordance with paragraph 4 above, or shut-in royalties are timely and properly paid, if applicable to such well.
- C. As used in this Lease, the term "horizontal well" means one that meets the definition of a "horizontal drain hole well" under Statewide Rule 86 of the Texas Railroad Commission, and a "vertical well" is a well that is not a horizontal well. A Retained Tract for a vertical well may not exceed the minimum

size prescribed by the Railroad Commission of Texas for a proration unit under the applicable field rules, but if the field rules have not been established, a Retained Tract Unit for a vertical well may not exceed 40 acres in size. In addition, a Retained Unit for a vertical well producing from the Barnett Shale formation may not exceed 40 acres in size. A Retained Tract for a horizontal well may not exceed 640 acres and otherwise comply with the requirements of Rule 86. A gas well that thereafter becomes an oil well will hold only the acreage permitted for an oil well, and Lessee must file in the county records a re-designation of the tract as an oil well tract.

D. Within sixty (60) days after the last to occur of the expiration of the Primary Term or the continuous drilling program, Lessee must file in the county records and furnish to Lessor a document designating each Retained Tract and the retained depths there under and releasing all other depths and acreage. If Lessee fails to file timely a required document after thirty (30) days prior written notice from Lessor, then Lessor may do so at Lessee's expense, and the filing will bind Lessee.

E. In the event any portion of the Land is pooled with other land or leases, in accordance with the foregoing rules, Lessor's royalty shall be equal to Lessor's Royalty Fraction multiplied by a fraction calculated by dividing Lessor's net mineral acres contributed to the pooled unit by the total mineral acres contributed to the pooled unit by all lessees and lessors.

6. **Force Majeure.**

Should Lessee be prevented by reason of Force Majeure from complying with any express or implied covenant of this Lease (other than a requirement to pay money), from conducting drilling or reworking operations on the Land, or from producing oil or gas, then while so prevented, that covenant will be suspended; Lessee will not be liable for damages for failure to comply therewith; this Lease will be extended so long as Lessee is prevented from conducting drilling or reworking operations on or from producing oil or gas from the Land; and the time while Lessee is so prevented will not be counted against the Lessee. "Force Majeure" means any Act of God, any new federal or state law, or other rule, or regulation of governmental authority, or other cause (other than financial reasons) beyond Lessee's control. Events of force majeure shall exclude the scarcity of or inability to obtain or use equipment or material, lack of market or unavailability of a market, cessation of production due to any mechanical, pipeline, equipment, well-bore or formation problem however caused, violation of existing federal or state law, or other rule, or regulation of governmental authority, and any other occurrence or cause within the control of Lessee, or which could have been prevented or avoided by Lessee, in the exercise of reasonable planning and prudence; and Lessee shall take all reasonable action to remove or end any cause of force majeure as soon as reasonably possible. In no event shall this Lease be perpetuated by an event of force majeure for a period of more than one hundred eighty (180) consecutive days, or two (2) years of cumulative time.

7. **No Warranties.**

Lessor makes no warranty of any kind with respect to title to the Land. By acceptance of the Lease, Lessee acknowledges that it has been given full opportunity to investigate and has conducted sufficient investigation to satisfy itself as to the title to the Land, and Lessee assumes all risk of title failures. If Lessor owns an interest in the Land less than the entire fee simple estate, then the royalties (including shut-in royalties) payable hereunder will be reduced proportionately.

8. **Indemnity.**

LESSEE AGREES TO DEFEND, INDEMNIFY AND HOLD HARMLESS LESSOR, AND LESSOR'S PARTNERS, REPRESENTATIVES, SUCCESSORS AND ASSIGNS, AND THEIR OFFICERS, REPRESENTATIVES, EMPLOYEES, AND AGENTS, AGAINST ALL COSTS, EXPENSES, CLAIMS, DEMANDS, LIABILITIES, AND CAUSES OF ACTION OF ANY NATURE OR KIND, INCLUDING BUT NOT LIMITED TO CLAIMS FOR INJURY TO OR DEATH OF PERSONS AND LOSS OR DAMAGE TO PROPERTY, AND INCLUDING, WITHOUT LIMITATION, ATTORNEY FEES, EXPERT FEES, AND ALL COURT COSTS AND OTHER EXPENSES INCURRED, ARISING OUT OF, RESULTING FROM, OR IN ANY WAY CONNECTED WITH, LESSEE'S OPERATIONS AND ACTIVITIES ON THE LAND OR ANY ADJACENT OR POOLED LAND OR LESSEE'S MARKETING OF PRODUCTION FROM THE LAND OR ANY POOLED LAND OR ANY VIOLATION OF ANY ENVIRONMENTAL REQUIREMENTS IMPOSED ON LESSEE. AS USED IN THIS PARAGRAPH, THE TERM "LESSEE" INCLUDES LESSEE, ITS AGENTS, EMPLOYEES, SERVANTS, INDEPENDENT CONTRACTORS, AND ANY OTHER PERSON ACTING ON ITS BEHALF OR UNDER ITS DIRECTION AND CONTROL, WHETHER ACTING WITHIN THE SCOPE OF THEIR EMPLOYMENT OR NOT, AND WHETHER NEGLIGENT OR NOT.

9. **Environmental.**

As used herein, the term "Hazardous Materials" means any substance defined or identified as hazardous, extra hazardous or toxic substance, waste, or regulated material under any applicable federal, state, or local statute, rule, regulation, order, guideline, or other law (herein "applicable law"). "Remedial Work" is defined as any site investigation or monitoring, any cleanup, containment, remediation, removal, or restoration work performed in response to any federal, state or local government authority, or private party action, or pursuant to any applicable law. Lessee shall (1) remove from the Land covered by this Lease or any adjacent or pooled land, if, as and when required by applicable law, any Hazardous Materials placed or released thereon by Lessee or in connection with Lessee's operations and activities; (2) perform Remedial Work where the need arises as a result of Lessee's operations and activities on said land; and (3) comply in all respects with applicable law governing Lessee's operations and activities and Remedial Work. Remedial Work shall be performed by one or more contractors selected by Lessee and approved in advance by Lessor under the supervision of a consulting engineer or environmental hazard expert selected by Lessee and approved in advance by Lessor. All costs and expenses of Remedial Work arising out of or resulting from Lessee's operations and activities shall be paid by Lessee, including, without limitation, the charges of such contractors and/or consultants and Lessor's reasonable attorney's fees and costs incurred in connection with the monitoring or review of Remedial Work. If Lessee shall fail to timely commence or cause to be commenced, or fail to diligently prosecute to conclusion, such Remedial Work, Lessor may (but is not required to), after first giving Lessee fifteen (15) days notice of its failure and Lessee's continued failure to perform, cause such Remedial Work to be performed and Lessee will reimburse Lessor for all reasonable costs of such work, with interest, in accordance with Paragraph 16. Lessee will notify Lessor of any notice, claim or other action by any governmental agency or third party involving the actual or alleged existence of Hazardous Materials on said land, and provide Lessor with copies of (1) any notices of any release or existence of Hazardous Materials given by or to Lessee and (2) any report or response to any such incident. Lessee will indemnify, pay and protect, defend and hold harmless Lessor, its officers, partners, employees, agents and representatives, and their guests and invitees, and their heirs, successors and assigns, from all claims, lawsuits, causes of action, administrative orders and proceedings, fees, penalties, costs, losses, judgments, settlements, and damages, of every kind and character, including reasonable attorney's fees, expert fees, court costs and all other expenses incurred, which may grow out of, arise from, or in any manner be connected with the actual or alleged presence or release on any Hazardous Materials in connection with the activities of Lessee and Lessee's agents, invitees, guests, contractors, servants, and employees, whether acting within the scope of their employment or not, and whether negligent or not, on the Land covered by the Lease and any adjacent or pooled property. This indemnification includes costs in connection with Remedial Work when performed by Lessor or any third party in response to any applicable law or governmental authority or third party.

IN WITNESS WHEREOF, this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

LESSOR:

  
Suzanne Hamilton Scruggs

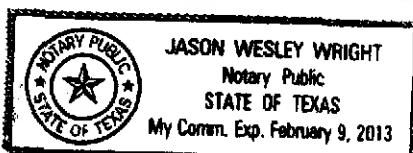
STATE OF TEXAS

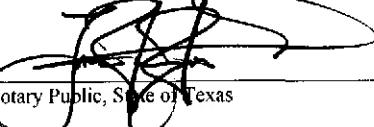
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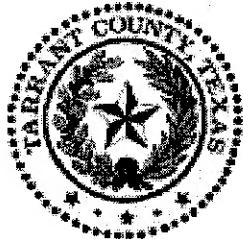
ACKNOWLEDGMENT

COUNTY OF TRAVIS

This instrument was acknowledged before me on the 16<sup>th</sup> day of March, 2009, by SUZANNE HAMILTON SCRUGGS.



  
Notary Public, State of Texas



THUNDERBIRD OIL & GAS LLC'  
515 FOURTH ST

GRAHAM TX 76450

Submitter: THUNDERBIRD OIL & GAS LLC'

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SUZANNE HENDERSON  
TARRANT COUNTY CLERK  
TARRANT COUNTY COURTHOUSE  
100 WEST WEATHERFORD  
FORT WORTH, TX 76196-0401

**DO NOT DESTROY**  
**WARNING - THIS IS PART OF THE OFFICIAL RECORD.**

Filed For Registration: 04/02/2009 01:21 PM

Instrument #: D209087680

LSE 5 PGS \$28.00

By: \_\_\_\_\_



**D209087680**

ANY PROVISION WHICH RESTRICTS THE SALE, RENTAL OR USE  
OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR  
RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW.

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